

Treas.
HJ
4652
.A48
1991
c.1

**The Operation and Effect
of the International
Boycott Provisions of the
Internal Revenue Code**

Fifth Annual Report

Department of the Treasury
February 1991

Tress.
H J
4,52
1148
1911
c.1

The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code

Fifth Annual Report

Department of the Treasury
February 1991

LIBRARY
ROOM 5030

JUN 15 1991

TREASURY DEPARTMENT



DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

February 5, 1991

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Section 1067 of Public Law 94-455, the "Tax Reform Act of 1976", provides that for each calendar year, "the Secretary shall transmit a report to the Committee on Ways and Means of the House of Representatives and to the Committee on Finance of the Senate", setting forth an analysis of the international boycott provisions of the Internal Revenue Code.

Pursuant to that section, I hereby submit the fifth report entitled, "The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code".

A similar letter is being sent to Senator Lloyd Bentsen, Chairman of the Committee on Finance.

Sincerely,

Kenneth W. Gideon
Assistant Secretary
(Tax Policy)

Enclosure



DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

February 5, 1991

The Honorable Lloyd Bentsen
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Section 1067 of Public Law 94-455, the "Tax Reform Act of 1976", provides that for each calendar year, "the Secretary shall transmit a report to the Committee on Ways and Means of the House of Representatives and to the Committee on Finance of the Senate", setting forth an analysis of the international boycott provisions of the Internal Revenue Code.

Pursuant to that section, I hereby submit the fifth report entitled, "The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code".

A similar letter is being sent to Representative Dan Rostenkowski, Chairman of the Committee on Ways and Means.

Sincerely,

Kenneth W. Gideon
Assistant Secretary
(Tax Policy)

Enclosure

TABLE OF CONTENTS

List of Figures and Tables	vi
----------------------------	----

<u>Chapter</u>	<u>Title</u>	<u>Page</u>
1	Introduction and Summary	1
2	Provisions and Implementation	5
3	Statistical Information	13
Endnotes		21
Appendix	Form 5713 and Instructions	23

LIST OF FIGURES AND TABLES

		<u>Page</u>
Figure 1	Countries Which Require or May Require Participation in or Cooperation with an International Boycott	11
Table 1	Estimated Tax Consequences of the International Boycott Provisions, 1976-86	3
Table 2	Historical Summary, 1976-86	4
Table 3	Income, Assets and Foreign Characteristics by Type of Person, and by Size of Total Corporate Assets, 1986	16
Table 4	Types of Boycott Requests by Country, 1986	17
Table 5	Types of Boycott Agreements by Country, 1986	18
Table 6	Number of Corporations with Operations in or Related to a Boycotting Country and Number of Requests and Agreements, 1986	19

CHAPTER 1

INTRODUCTION AND SUMMARY

This is the fifth report on the operation of the international boycott provisions of the Internal Revenue Code. 1/ The statistical information in this report is based on information from all copies of Forms 5713, "International Boycott Report," filed for all accounting periods ended during 1986. 2/

The Tax Reform Act of 1976 added several provisions to the Internal Revenue Code denying certain tax benefits to taxpayers who participate in or cooperate with an international boycott. The tax benefits affected by the boycott provisions of the 1976 Act are (1) the foreign tax credit, (2) the deferral of tax on the earnings of foreign subsidiaries, and (3) the deferral of tax on the earnings of Domestic International Sales Corporations (DISC's).

The 1984 Tax Reform Act replaced the DISC with two new types of corporations called Interest-Charge Domestic International Sales Corporations (IC-DISC's) and Foreign Sales Corporations (FSC's). Consequently, the income eligible for tax deferral under the DISC rules in (3) above has been replaced by (4) the deferral of taxation on certain income of an IC-DISC, and (5) by the exemption from U.S. tax of a portion of FSC foreign trade income. The intent of Congress, expressed in the General Explanation of the Tax Reform Act of 1976, prepared by the Joint Committee on Taxation, that certain tax benefits should not be made available with respect to operations in connection with which there has been an agreement to participate in or cooperate with an international boycott remains unchanged by the 1984 Act.

The international boycott provisions allow a choice between two methods for computing the amount of tax benefits lost -- the "specifically attributable income and taxes" method and the "international boycott factor" method. Under the specifically attributable income and taxes method, the benefits of the foreign tax credit are denied by reducing the amount of taxes eligible for the credit. Under the international boycott factor method, the benefits of the foreign tax credit are denied by reducing the otherwise allowable credit.

The benefits of tax deferral of the income of foreign subsidiaries are denied under both methods of computation by requiring a deemed distribution of earnings to the shareholders of the controlled foreign corporation which in effect converts certain undistributed income into Subpart F income. For IC-DISC's, boycott income becomes taxable to its shareholders and therefore the benefits of tax deferral are denied.

The benefits of exemption from tax under the FSC provisions are reduced under both methods if there is boycott participation or cooperation. Under the specifically attributable method, the FSC computes its exempt foreign trade income. To the extent that any portion is attributable to operations in which there was participation in a boycott, it becomes non-exempt foreign trade income and taxable for the tax year. Under the international boycott factor method, the FSC regulations provide that the exempt foreign trade income be reduced by the same proportion as the boycott factor. The international boycott provisions are described more completely in Chapter 2.

Table 1 shows the tax consequences attributable to the international boycott provisions for the years 1976 to 1986. The estimates are based on the boycott income and foreign tax credit reported on Forms 5713. The 1986 estimate of \$2,850,000 represents a general decline in the tax consequences calculated since 1978.

Chapter 3 provides an extended discussion of the 1986 statistical information. Boycott income and foreign tax credits are presented as well as information on type of boycott activity by country. Select statistical tables on boycott participants are included in the appendix of the report.

For the 1986 tax year, reported boycott activity was at its lowest level since 1978. Since the last report in 1982, activity gradually increased then fell sharply after 1984. An historical summary of the boycott filings is presented in Table 2.* In addition to an overall reduction in the number of Forms 5713 filed and the tax consequences, the number of requests to participate in an international boycott declined from 16,824 in 1982 to 11,246 in 1986, while the number of persons agreeing to participate likewise fell from 234 to 44.

* Note- data for the years 1983 through 1985 are not available for some of the items because only the number of boycott reports filed and corporations that lost tax benefits were tabulated for these years.

Table 1

Estimated Tax Consequences of International Boycott Provisions,
1976-1986

(Thousands of dollars)

	Denial of Foreign Tax Credit	Denial of DISC or IC-DISC Benefits 1/	Denial of FSC Benefits	Denial of CFC Deferral	Total
1976	57	25	N/A	200	272
1977	734	657	N/A	1,254	2,645
1978	5,298	472	N/A	5,559	11,329
1979	3,898	688	N/A	5,376	9,962
1980	3,228	382	N/A	3,654	7,264
1981	2,501	687	N/A	2,483	5,671
1982	1,806	503	N/A	1,873	4,182
1983	1,744	474	N/A	2,782	5,000
1984	2,285	681	N/A	3,154	6,120
1985	1,142	11	92	2,910	4,155
1986	605	2	80	2,163	2,850

N/A - Not applicable.

1/ Denial of DISC benefits are shown for 1976-1984 while 1985 and 1986 amounts are for the denial of IC-DISC benefits.

Note: The analysis assumes that for the foreign tax credit estimate both taxable income and the foreign tax credit were reduced by the full amount of the change. For the deemed distributions of DISC's, IC-DISC's, and controlled foreign corporations, as well as the loss of exempt foreign trade income of FSC's, the boycott provisions were assumed to increase taxable income by the full amount of the lost benefits. Since these assumptions do not apply in certain cases (e.g., taxpayers with excess foreign taxes or negative taxable income), these estimates slightly overstate the actual revenue effect of the international boycott provisions. The estimates in this table do not reflect audit adjustments.

TABLE 2
Historical Summary, Selected Years, 1976-86

	1976	1980	1982	1983	1984	1985	1986
Number of boycott reports							
All persons	1,462	3,413	2,822	2,789	3,378	2,418	2,104
Corporations	1,356	3,090	2,583	2,550	3,158	2,192	1,900
Number of persons receiving boycott requests							
All persons	271	602	537	n.a.	n.a.	n.a.	533
Corporations	240	494	431	n.a.	n.a.	n.a.	419
Number of requests							
All persons	6,335	14,879	16,824	n.a.	n.a.	n.a.	11,246
Corporations	6,081	14,312	15,072	n.a.	n.a.	n.a.	10,652
Number of persons agreeing to participate							
All persons	128	234	212	n.a.	n.a.	n.a.	44
Corporations	110	229	178	n.a.	n.a.	n.a.	44
Number of agreements							
All persons	1,837	7,445	5,809	n.a.	n.a.	n.a.	1,450
Corporations	1,762	7,432	5,189	n.a.	n.a.	n.a.	1,450
Number of corporations reporting a reduction in tax benefits	35	88	87	76	65	49	40
Estimated revenue effect (thousands of dollars)	272	7,264	4,182	5,000	6,120	4,155	2,850

n.a.= not available
Office of the Secretary of the Treasury
Office of Tax Analysis

CHAPTER 2

PROVISIONS AND IMPLEMENTATION

Provisions

The international boycott provisions deny the benefits of the foreign tax credit, deferral of taxation on the earnings of foreign subsidiaries, deferral of taxation on certain income of an IC-DISC and exemption from tax on a portion of FSC foreign trade income. To the extent that these tax benefits are attributable to operations of any person (or its affiliates) in connection with which there was an agreement to participate in or cooperate with an international boycott, they are denied.

The loss of tax benefits may be computed by the "international boycott factor" method or by the "specifically attributable income and taxes" method. A taxpayer using the first method multiplies the tax benefits otherwise available by an "international boycott factor" and forfeits the tax benefits represented by that product. The international boycott factor is a fraction. Generally, the numerator of the fraction reflects all purchases, sales, and payroll of the person applying the fraction in countries associated in carrying out the international boycott, exclusive of those operations for which the presumption of participation or cooperation has been rebutted. The denominator reflects the person's purchases, sales, and payroll in all countries other than the United States. If the person applying the international boycott factor is a member of a controlled group of corporations, the numerator and denominator reflect the total purchases, sales, and payroll of the controlled group.

A person that chooses to determine the loss of tax benefits by applying the "specifically attributable income and taxes" method is required to demonstrate the foreign taxes paid and income earned attributable to specific operations by analyzing the profit and loss data of each separate and identifiable operation. The election to use the international boycott factor or the specifically attributable income and taxes method is an annual election. Computations for both methods reflect the full taxable year. (A separate adjustment was made to reflect the effective date of the boycott provisions for taxable years which include November 3, 1976.)

The international boycott provisions are generally effective for operations after November 3, 1976. Operations carried out in accordance with the terms of a binding contract entered into before September 2, 1976, do not constitute participation in or cooperation with an international boycott until after December 31, 1977. Therefore, the purchases, sales, and payroll attributable to such operations before January 1, 1978, are not reflected in the numerator of the international boycott factor.

If the taxpayer computes the loss of tax benefits using the international boycott factor method, the benefits of the foreign tax credit are denied by reducing the otherwise allowable foreign tax credit to which the taxpayer would be entitled under Sections 901, 902 and 960 of the Internal Revenue Code, after applying the limitations, if applicable, of Sections 904 and 907. On the other hand, if the taxpayer computes the loss of tax benefits by determining the income and taxes specifically attributable to boycott operations, the amount of taxes paid or accrued that would otherwise qualify for the credit is reduced before the application of the limitations of Sections 904 and 907. Taxes which may not be credited under this provision may not be carried back or forward as foreign tax credits, but may be deducted in computing taxable income.

The benefits of deferral of CFC income are denied to the taxpayer by requiring a deemed distribution of earnings to the shareholder of the controlled foreign corporation. The loss of deferral benefits is accomplished by treating as Subpart F income the earnings attributable to operations in which there is boycott participation. Thus, deferral benefits are lost only with respect to earnings of controlled foreign corporations (any foreign corporation of which more than 50 percent of the voting power is owned by United States shareholders). Each United States shareholder of the controlled foreign corporation (that is, each United States person owning, or treated under the applicable attribution rules as owning, at least 10 percent of the voting power of a corporation) includes in income, under the Subpart F provisions, its pro rata portion of the earnings of the controlled foreign corporation attributable to operations in which there is boycott participation, whether or not the shareholder and the controlled foreign corporation are members of the same controlled group of corporations.

For taxable years after 1984, the FSC program, approved by Congress, largely replaced the DISC export incentives. 3/ The FSC is a foreign corporation that, after meeting certain requirements, qualifies for an exemption from U.S. tax on a portion of its foreign trade income. Foreign trade income (FTI) is defined as gross income of the FSC attributable to foreign trade gross receipts. 4/ In general, a portion of the FTI is exempt from U.S. tax while the remainder is taxable. No credit or deduction for income taxes paid is allowed to a FSC in relation to the exempt portion of FTI. The exempt FTI is treated as foreign source income not effectively connected with the conduct of a U.S. trade or business. 5/ If the FSC agrees to cooperate with or participate in an international boycott, the amount of FTI exempt from U.S. tax and the amount of foreign tax credit are reduced. If the taxpayer elects the specifically attributable method, the FSC computes its exempt foreign trade income. Any portion of this income that is attributable to operations in which there was boycott participation becomes non-exempt foreign trade income, taxable for the tax year, and carries no foreign tax credits. (See Income Tax Regulations 1.927(e)-2T(b).) If the taxpayer elects the international boycott factor method, the FSC's exempt foreign trade income is reduced by the same proportion as the boycott factor. This income becomes non-exempt

foreign trade income. It is currently taxable and no foreign tax credits may be applied to it. (See Income Tax Regulations 1.927(e)-2T(a).)

The DISC rules were not entirely replaced by the FSC provisions in the 1984 Act. Exporters not desiring to form a qualifying FSC can choose to form a qualifying "small" FSC or an interest charge DISC. Both elections allow the corporation to avoid any expenses involved in complying with the foreign management and foreign economic processes tests applicable for regular FSC's.

Prior to 1985, a portion of the DISC income was deemed distributed to the shareholders of the DISC at the end of the year and it was included in the taxable income of the shareholders. The tax on the balance of the DISC's income was deferred until it was actually distributed, or when the DISC stock was disposed of, or when the DISC failed to qualify as a DISC. The denial of DISC benefits due to boycott participation or cooperation was accomplished by treating as a deemed distribution by a DISC to its shareholders the earnings of the DISC attributable to operations in which there was boycott participation or cooperation. The denied DISC benefits, similar to other deemed distributions from a DISC to its shareholders, were treated as previously taxed income for purposes of computing DISC earnings and profits.

Under the 1984 Act, the shareholders of an IC-DISC are required to pay an annual interest charge on the deferred tax liability of the IC-DISC. The interest rate charged is equal to the base period Treasury Bill rate. In addition, the IC-DISC will generally be deemed to distribute 1/17 of its income associated with qualified export receipts of \$10 million or less and all of its income associated with qualified export receipts that exceed \$10 million. This deemed distribution is included in the IC-DISC shareholder's taxable income. The tax on the remaining income associated with qualified export receipts of \$10 million or less will be indefinitely deferred. The amount of income eligible for deferral is reduced by the amount of the IC-DISC income attributable to operations in which there is participation in or cooperation with an international boycott.

A "small" FSC, like an IC-DISC, is also exempt from complying with the foreign management and economic processes tests. Also, similar to the limitation on the size of the qualified export receipts of IC-DISC's, no more than \$5 million of the "small" FSC's foreign trading gross receipts (FTGR), for each tax year, will be taken into account in determining its exempt foreign trade income. Qualified export receipts of the DISC and foreign taxable gross receipts of the FSC are similar. Once again, benefits of a "small" FSC will be denied to the extent of its participation in an international boycott.

A person participates in or cooperates with an international boycott if the person agrees, as a condition of doing business directly or indirectly within a country or with the government, a company, or a national of a country (1) to refrain from doing business with or in a country which is the object of an international boycott or with the government, companies, or nationals of that country; (2) to refrain from doing business with any United States person engaged in trade within another country which is the object of an international boycott or with the government, companies, or nationals of that country; (3) to refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion; or (4) to refrain from employing individuals of a particular nationality, race, or religion. A person also participates in or cooperates with an international boycott if the person agrees, as a condition of the sale of a product to the government, a company, or a national of a country to refrain from shipping or insuring products on a carrier owned, leased, or operated by a person who does not participate in or cooperate with an international boycott. A person is not considered to have participated in or cooperated with an international boycott unless it agrees to such participation or cooperation. The agreement need not be in writing; there may be an implied agreement. The agreement may be with respect to any type of business (including manufacturing, banking and service businesses).

A person is permitted to agree to comply with certain laws without being treated as agreeing to participate in or cooperate with an international boycott. Thus, a person may agree to meet requirements imposed by a foreign country with respect to an international boycott if a U.S. law, executive order, or regulation sanctions that participation or cooperation. Also, a person may agree to comply with a prohibition on the importation of goods produced in whole or in part in any boycotted country and to comply with a prohibition imposed by a country on the exportation of products obtained in that country to any boycotted country. However, a person may not agree to refrain from importing from or exporting to or from a particular country products which are, or which contain components which are, made by a company which has done business with a boycotted country.

If a person, or a member of a controlled group (within the meaning of Section 993(a)(3)) which includes that person, participates in or cooperates with an international boycott in a country, that person or group is presumed to have participated in or cooperated with that boycott with respect to all operations in all countries which require participation in or cooperation with that international boycott. However, a person may establish that it has, or related persons have, conducted clearly separate and identifiable operations in that country or another country with respect to which there is no participation in or cooperation with that boycott. Where the person involved is a foreign corporation, its United States shareholders (within the meaning of Section 951(b)) may establish that the foreign corporation conducts

clearly separate and identifiable operations with respect to which there is no participation in or cooperation with the boycott.

Where there are not continuous business activities within a country, separate and identifiable operations can include separate export or import transactions. Where there are continuous business activities within a country, each separate business activity (taking into account basic differences in the types of any products sold or services offered, clear separation of the management of the activities, and so forth) may represent a separate and identifiable operation. If a person is able to establish clearly separate and identifiable operations, it may then establish that with respect to certain operations there is no participation in or cooperation with that international boycott. The burden of proof is upon the taxpayer to establish that an operation is clearly separate and identifiable and that there is no participation in or cooperation with an international boycott in connection with that operation.

The presumption of boycott participation or cooperation extends beyond members of a controlled group of corporations in certain situations. If a person (e.g., an individual or a corporation) controls a corporation and the corporation participates in or cooperates with an international boycott, then the controlling person is presumed to have participated in or cooperated with that boycott. Additionally, if the controlling person participates in or cooperates with an international boycott, the controlled corporation is presumed to have participated in or cooperated with that international boycott. Control for this purpose has the same meaning as it does in Section 304(c); that is, a person is considered to control a corporation if, after application of the appropriate attribution of stock ownership rules, the person owns at least 50 percent of the stock of the corporation. Thus, the presumption applies in the case of noncorporate shareholders owning at least 50 percent of a corporation's stock, and in the case of corporate shareholders owning only 50 percent of a corporation's stock, even though in both cases the shareholders are not members of the same controlled group as corporations in which they own the stock interest. As discussed above, however, the presumption of boycott participation or cooperation may be rebutted by establishing clearly separate and identifiable operations with respect to which there is no boycott participation or cooperation.

Implementation

The Treasury Department has issued several sets of guidelines consisting of questions and answers relating to the international boycott provisions. The current guidelines, released January 20, 1978, generally supersede the earlier sets of guidelines issued November 4, 1976, December, 1976, and August 12, 1977. The current guidelines are generally retroactive to November 3, 1976. However, several exceptions to this effective date allow affected persons to rely on previous guidelines in certain situations. Additional guidelines were published November 19, 1979, April 26, 1984 and July 2, 1987.

Among the guidelines published in November, 1979 was one which defined, as a form of participation in or cooperation with an international boycott, agreements to provide certain commonly-used certificates regarding the eligibility of ships to enter the ports of boycotting countries. This guideline merely confirmed the Department's existing position on analogous agreements as reflected in published guidelines. Information brought to the Department's attention suggests that a substantial number of these agreements were entered into since 1980. The Department has informed the IRS of these facts to aid auditors in ascertaining the existence of such agreements.

Temporary regulations setting forth the computation of the international boycott factor were published in the Federal Register on March 1, 1977.

The IRS established a procedure so that taxpayers conducting business with a foreign country will be able to obtain a determination as to whether their operations constitute an international boycott agreement. This procedure is the subject of Revenue Procedure 77-9, 77-1 C.B. 542, issued by the Internal Revenue Service on February 3, 1977.

The international boycott provisions require the Secretary of the Treasury to publish a list, which is to be updated quarterly, of those countries which may require participation in or cooperation with an international boycott. The first list, published on November 3, 1976, listed 14 countries. The list was published without change until Egypt was omitted, effective April 1, 1980. The list of countries for 1986 is shown in Figure 1. With the recent union of the Arab Republic of Yemen and the Peoples Democratic Republic of Yemen, the list was again amended effective July 25, 1990.

Since the last report the IRS has completed audits for fiscal years 1983 and 1984. These audits involved an average of 350 taxpayers who filed Forms 5713 and resulted in an increase in tax liability of \$32,000 for 1983 and \$1.8 million for 1984.

FIGURE 1

Countries which required or may have required participation in or cooperation with an international boycott, as of 1986.

1. Bahrain
2. Iraq
3. Jordan
4. Kuwait
5. Lebanon
6. Libya
7. Oman
8. Qatar
9. Saudi Arabia
10. Syria
11. United Arab Emirates
12. Yemen Arab Republic
13. Yemen, Peoples Democratic Republic of

Note: Yemen Arab Republic and the Peoples Democratic Republic of Yemen recently joined to form the Republic of Yemen. A corresponding change was made to the Treasury list, effective July 25, 1990.

CHAPTER 3

STATISTICAL INFORMATION

The data in this chapter are derived from 2,104 Forms 5713, "International Boycott Report", filed for accounting periods ending in 1986. These reports were required from any person who:

1. had operations; or
2. was a member of a controlled group, a member of which had operations; or
3. was a United States shareholder of a foreign corporation that had operations; or
4. was a partner in a partnership that had operations; or
5. was treated under Section 671 as the owner of a trust that had operations

in, or related to, a boycotting country (or with the government, a company, or a national of a boycotting country). Non-United States persons were not required to report unless at least one of the five conditions described above was met and either the benefits of the foreign tax credit under Section 901 were claimed or that person owned stock in a FSC or IC-DISC. The mere existence of reportable activity does not in any way imply that a person has participated in or cooperated with an international boycott. Only 44 of the 2,104 persons filing boycott reports for 1986 reported participation in or cooperation with an international boycott. All of them were corporations.

In 1986, 40 persons, all corporations, reported a reduction in tax benefits due to the international boycott provisions (controlled groups of corporations were counted as one person) 6/. The international boycott factor method of computing loss of tax benefits was used by 14 of these 40 corporations. These 14 corporations reported a reduction in foreign tax credits of nearly \$700,000 to \$470.3 million. This reduction represents less than 0.15 percent of the foreign tax credit claimed by these corporations. Includable income of controlled foreign corporations under Subpart F was increased by \$1.7 million to \$324.2 million (a 0.5 percent increase). The amount of foreign trade income denied exemption from U.S. tax and added to the taxable income of FSC's was \$37,000 (an increase of 0.1 percent). The remaining 26 corporations, using the specifically attributable income and taxes method, reported a reduction in creditable foreign taxes of \$400,000, an increase in Subpart F income of \$3.0 million, and an increase in FSC taxable income of \$136,000. Since corporations using the specifically attributable income and taxes method report only the amount of benefits lost, the total benefits claimed by these corporations are not available.

Table 3 presents the income, assets and selected foreign characteristics of persons filing boycott reports for 1986 by type of person and size of assets of corporations. The income in column 2 for corporations (including FSC's and IC-DISC's) is taxable income (or loss) before net operating loss and special deductions. The amount for individuals is adjusted gross income; for partnerships, ordinary income; and for estates and trusts, total income. End of year total assets are shown in column 3 for corporations and partnerships. Columns 4, 5, 6, and 7 indicate the number of boycott reports containing amounts on lines 6(a), 6(b), 6(c), and 6(d), respectively, of the Form 5713. Corporations account for more than 98 percent of the income and the assets shown in this table.

The 1,900 corporations filing Forms 5713 for accounting periods ending in 1986 represent only 0.05 percent of all U.S. corporations. However, their assets of \$5.4 trillion were 38 percent of the assets of all corporations. 2/

Table 4 summarizes requests to participate in or cooperate with an international boycott by type of request and by country of operation. It is limited to requests received by corporations (including FSC's and IC-DISC's). The five types of requests are those listed in Section 999(b)(3). The countries are from the Treasury list of countries which have organized an international boycott program subject to Section 999. The data in this table are based on responses to questions 11 and 13 of the Form 5713. Columns 1 and 2 are not additive because a given person may have had operations in more than one country or receive requests from more than one country. Approximately 20 percent of the requests involved operations in or related to Kuwait. Saudi Arabia accounted for 15 percent of the total, while the United Arab Emirates and Iraq each accounted for 14 percent. About 38 percent of all requests were type 5 requests. Persons receiving this type of request were asked:

As a condition of the sale of a product to the government, a company or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased or operated by a person who does not participate in or cooperate with an international boycott.

Table 5 provides information on agreements by corporations to participate in or cooperate with an international boycott by country of operation. The pattern is similar to that in Table 4. Although 1,900 corporations had operations in or related to boycotting countries, only 44 agreed to participate in or cooperate with an international boycott. These corporations reported 1,450 agreements.

Table 6 measures the extent of and accommodation to the various countries' boycott efforts. Column 1 shows the number of corporations with operations in each country.^{8/} Column 2 shows the number of corporations receiving requests and column 3 shows the percentage of corporations with operations in a country receiving

requests from that country. Column 4 shows the number of corporations agreeing to participate in or cooperate with an international boycott, and column 5 shows the percentage of corporations receiving requests who agreed to participate. Columns 6 and 7 show the number of requests and agreements, respectively, and column 8 shows the percentage of requests which resulted in agreements.

TABLE 3
Income, Assets and Foreign Characteristics,
by Type of person filing, and
by Size of total corporate assets, 1986

Type of person and size of total corporate assets	Number of Boycott Reports	Income (Loss) 1/,2/	Total Assets 2/	Number of persons claiming- Foreign Tax Credit	Number of shareholders:		
					- CFC's	- IC-DISC's	- FSC's
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
All persons, total	2,104	\$114,377	\$5,446,000	616	450	77	3/
Corporations, total(incl'd IC-DISC & FSC)	1,900	112,561	5,438,985	572	372	77	417
Asset size							
0 or N/A	119	(53)	--	19	5	3/	15
\$1 - \$10million	562	201	1,242	27	15	48	162
\$10m - \$100million	379	1,509	16,179	87	52	13	66
\$100m - \$250million	174	820	27,643	62	35	6	31
\$250m - \$500million	114	1,830	40,377	56	34	3/	22
\$500m - \$1,000million	129	3,576	92,222	61	44	5	25
greater than \$1,000million	423	104,678	5,261,323	260	187	3/	96
FSC's	228	351	1,200	4	--	--	174
IC-DISC's	75	16	124	--	--	41	3/
Individuals	100	16	--	26	63	--	3/
Partnerships	83	1,798	6,629	3/	3	--	--
Estates and trusts	3/	1	--	3/	12	--	--

Office of the Secretary of the Treasury
Office of Tax Analysis

1/ Taxable income for corporations(including IC-DISC's & FSC's);
adjusted gross income for individuals; ordinary income for partnerships;
total income for estates and trusts.

2/ In millions of dollars

3/ Not shown in order to avoid disclosure.

TABLE 4
Types of Boycott Requests 1/ by Country, 1986

Country	Number of Corporate Operations 2/	Number of Corps Receiving Requests	Requests to participate in or cooperate with an international boycott					
			Total (3)	Type 1 (4)	Type 2 (5)	Type 3 (6)	Type 4 (7)	Type 5 (8)
Number of Corps, total	1,900	419	10,652	3,378	2,200	645	431	3,998
Bahrain	813	119	487	92	163	3/	3/	3/
Iraq	609	168	1,442	581	203	132	44	482
Jordan	778	96	601	131	224	3/	3/	3/
Kuwait	1,062	213	1,969	465	408	25	37	1,034
Lebanon	674	43	164	13	88	4	--	59
Libya	422	68	491	284	27	27	20	133
Oman	720	117	824	244	187	72	55	266
Qatar	653	63	410	78	161	14	14	143
Saudi Arabia	1,373	202	1,609	418	374	184	125	508
Syria	553	87	498	188	64	49	38	159
United Arab Emirates	975	203	1,372	445	239	82	74	532
Yemen Arab Republic	388	30	89	29	14	17	12	17
Peoples' Democratic Republic of Yemen	287	27	59	22	9	--	--	28
Middle East, unallocable	9	5	13	6	--	3/	--	3/
All other countries	1,199	210	624	382	39	13	8	182
Office of the Secretary of the Treasury Office of Tax Analysis								

1/ The types of requests defined below are based on Section 999(b)(3) and correspond to the answers to questions 11 and 13 of the Form 5713. Persons reporting these requests were asked as a condition of doing business directly or indirectly within a country or with the government, a company or national of a country to:

- Type 1 Refrain from doing business with or in a country which is the object of the boycott or with the government, companies, or nationals of that country.
- Type 2 Refrain from doing business with any United States person engaged in trade in a country which is the object of the boycott or with the government, companies or nationals of that country.
- Type 3 Refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race or religion.
- Type 4 Refrain from employing individuals of a particular nationality, race or religion.
- Type 5 As a condition of the sale of a product to the government, a company or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased or operated by a person who does not participate in or cooperate with an international boycott.

2/ Country detail represents the number of corporate operations, rather than the number of corporations or the number of controlled groups of corporations. A corporation may have operations in more than one country.

3/ Frequency not shown in order to avoid disclosure.

TABLE 5
Types of Boycott Agreements 1/ by Country, 1986

Country	Number of Corporate Operations 2/	Number of Corps Agreeing to Participate	Agreements to participate in or cooperate with an international boycott					
			Total (3)	Type 1 (4)	Type 2 (5)	Type 3 (6)	Type 4 (7)	Type 5 (8)
Number of Corps, total	1,900	44	1,450	532	28	3/	3/	885
Bahrain	813	13	30	3	--	--	--	27
Iraq	609	16	304	198	11	3/	3/	90
Jordan	778	20	156	47	--	--	--	109
Kuwait	1,062	19	228	47	--	--	--	181
Lebanon	674	10	18	--	--	--	--	18
Libya	422	5	136	75	3/	--	--	3/
Oman	720	18	83	3/	3/	--	--	76
Qatar	653	10	51	17	--	--	--	34
Saudi Arabia	1,373	17	137	38	9	--	--	90
Syria	553	13	29	5	--	--	--	24
United Arab Emirates	975	16	248	86	5	--	--	157
Yemen Arab Republic	388	4	5	3/	--	--	--	3/
Peoples' Democratic Republic of Yemen	287	3/	18	9	--	--	--	9
Middle East, unallocable	9	--	--	--	--	--	--	--
All other countries	1,199	4	7	--	3/	--	--	3/
Office of the Secretary of the Treasury Office Tax Analysis								

1/ The types of requests defined below are based on Section 999(b)(3) and correspond to the answers to questions 11 and 13 of the Form 5713. Persons reporting these requests were asked as a condition of doing business directly or indirectly within a country or with the government, a company or national of a country to:

- Type 1 Refrain from doing business with or in a country which is the object of the boycott or with the government, companies, or nationals of that country.
- Type 2 Refrain from doing business with any United States person engaged in trade in a country which is the object of the boycott or with the government, companies or nationals of that country.
- Type 3 Refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race or religion.
- Type 4 Refrain from employing individuals of a particular nationality, race or religion.
- Type 5 As a condition of the sale of a product to the government, a company or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased or operated by a person who does not participate in or cooperate with an international boycott.

2/ Country detail represents the number of corporate operations, rather than the number of corporations or the number of controlled groups of corporations. A corporation may have operations in more than one country.

3/ Frequency not shown in order to avoid disclosure.

TABLE 6
Number of corporations with operations in or related to a
boycotting country and number of requests and agreements, 1986

Country	Number of Corporate Operations 2/	Number of Corps Receiving Requests	Col.2 as % of Col. 1	Number of Corps Agreeing	Col. 4 as % of Col. 2	Number of Requests Total	Number of Agreements Total	Col. 7 as % of Col. 6
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Number of Corps, total	1,900	419	22.1%	44	10.5%	10,652	1,450	13.6%
Bahrain	813	119	14.6	13	10.9	487	30	6.2
Iraq	609	168	27.6	16	9.5	1,442	304	21.1
Jordan	778	96	12.3	20	20.8	601	156	26.0
Kuwait	1,062	213	20.1	19	8.9	1,969	228	11.6
Lebanon	674	43	6.4	10	23.3	164	18	11.0
Libya	422	68	16.1	5	7.4	491	136	27.7
Oman	720	117	16.3	18	15.4	824	83	10.1
Qatar	653	63	9.6	10	15.9	410	51	12.4
Saudi Arabia	1,373	202	14.7	17	8.4	1,609	137	8.5
Syria	553	87	15.7	13	14.9	498	29	5.8
United Arab Emirates	975	203	20.8	16	7.9	1,372	248	18.1
Yemen Arab Republic	388	30	7.7	4	13.3	89	5	5.6
Peoples' Democratic Republic of Yemen	287	27	9.4	2/	2/	59	18	30.5
Middle East, unallocable	9	5	55.6	--	--	13	--	--
All other countries	1,199	210	17.5	4	1.9	624	7	1.1
Office of the Secretary of the Treasury								
Office of Tax Analysis								

1/ Country detail represents the number of corporate operations, rather than the number of corporations or the number of controlled groups of corporations. A corporation may have operations in more than one country.

2/ Not shown in order to avoid disclosure.

ENDNOTES

- 1/ The Export Administration Reports published by the Commerce Department include material on the antiboycott provisions of the Export Administration Act of 1979. The most recent report covers FY 1988.
- 2/ See Appendix for Form 5713.
- 3/ The FSC replaced DISC in response to objections raised under the General Agreement on Tariffs and Trade (GATT).
- 4/ See IR Code Section 923(b) added by the 1984 Tax Reform Act.
- 5/ See IR Code Section 921(a) added by the 1984 Tax Reform Act.
- 6/ Corporations who agreed to participate with an international boycott may not have reported lost tax benefits if they had no income attributable to the boycott operations or if they reported a loss for their total taxable income.
- 7/ Shook, Jonathan E., "Corporation Income Tax Returns, Income Year 1986," Statistics of Income Bulletin, Summer 1989, Volume 9, Number 1, page 23. Total assets of corporations for tax year 1986 were \$14.2 trillion. Tax year 1986 includes accounting periods ending July 1986 through June 1987.
- 8/ Multiple operations in each country were counted once for each return.

APPENDIX
FORM 5713 AND INSTRUCTIONS

Form **5713**
(Rev. January 1986)

Department of the Treasury
Internal Revenue Service

International Boycott Report

For tax year beginning 19.....
and ending 19.....

► Controlled groups, see specific instructions.

OMB No. 1545-0216
Expires 10-31-88

**To be Filed
in Duplicate**
(See Instruction B)

Name _____ Taxpayer identifying number _____

Number and street _____

City or town, state and ZIP code _____

Address of Service Center where your tax return is filed _____

Type of filer (check one)

☐ Individual ☐ Partnership ☐ Corporation ☐ Trust ☐ Estate ☐ Other

1 Individuals. — Enter adjusted gross income from your tax return (see instructions)

2 Partnerships and corporations

a Partnerships. — Enter each partner's name and taxpayer identifying number.

b Corporations. — Enter the name and employer identification number of each member of the controlled group (as defined in section 993(a)(3)). Do not list members included in the consolidated return; instead, attach a copy of Form 851. List all other members of the controlled group not included in the consolidated return.

If you list any corporations below or if you attach Form 851, you must designate a "common taxable year." Enter the name and employer identification number in line 4b of the corporation whose taxable year is designated.

Name	Taxpayer identifying number

If necessary, attach more sheets and check this box ☐ ►

c Enter principal business activity code and description (see instructions)

d IC-DISCs. — Enter principal product or service code and description (see instructions)

Code	Description

3 Partnerships.

 — Each partnership filing Form 5713 must give the following information

a Partnership's total assets (Form 1065, page 1)

b Partnership's ordinary income (Form 1065, page 1)

4 Corporations.

 — Each corporation filing Form 5713 must give the following information:

a Type of form filed (Form 1120, 1120-IC-DISC, 1120F, 1120-FSC, 1120L, 1120M, etc.)

b Common taxable year election (see instructions)—

(1) Name of corporation ►

(2) Employer identification number

(3) Common taxable year beginning 19..... and ending 19.....

c Corporations filing this form enter—

(1) Total assets (see instructions)

(2) Taxable income before net operating loss and special deductions (see instructions)

5 Estates or trusts

 — Enter total income (Form 1041, page 1)

6 Enter the total amount (before reduction for boycott participation or cooperation) of the following tax benefits (see instructions)

a Foreign tax credit

b Deferral of earnings of controlled foreign corporations

c Deferral of IC-DISC income

d Exempt FSC Income

Under penalties of perjury, I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

Signature ► _____ Date ► _____

Title ► _____

Yes	No
-----	----

- [illegible]

Part I

Yes	No
-----	----

▶

Name of country (1)	Taxpayer identifying number of person(s) having operations (2)	Principal business activity		IC-DISCs only—Enter product code (5)
		Code (3)	Description (4)	
a				
b				
c				
d				
e				
f				
g				
h				
i				
j				
k				
l				
m				
n				
o				
p				

9 Non-listed countries boycotting Israel.—Did you have operations in any non-listed country which you know or have reason to know requires participation in or cooperation with an international boycott directed against Israel?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

If "Yes," enter the country(ies), taxpayer identifying number of person(s) having operations, the principal business activity code, a description of the principal business activity; and if you are an IC-DISC, enter the product code. If necessary, attach additional sheets using the exact format and check this box ☐

Name of country (1)	Taxpayer identifying number of person(s) having operations (2)	Principal business activity		IC-DISCs only—Enter product code (5)
		Code (3)	Description (4)	
a				
b				
c				
d				
e				
f				
g				
h				

10 Boycotts other than the boycott of Israel.—Did you have operations in any other country which you know or have reason to know requires participation in or cooperation with an international boycott other than the boycott of Israel?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

If "Yes," enter the country(ies), taxpayer identifying number of person(s) having operations, the principal business activity code, a description of the principal business activity; and if you are an IC-DISC, enter the product code. If necessary, attach additional sheets using the exact format and check this box ☐

Name of country (1)	Taxpayer identifying number of person(s) having operations (2)	Principal business activity		IC-DISCs only—Enter product code (5)
		Code (3)	Description (4)	
a				
b				
c				
d				
e				
f				
g				
h				

11 Were you requested to participate in or cooperate with an international boycott?

If "Yes," attach a copy (in English) of any and all such requests received during your tax year. If the request was in a form other than a written request, attach a separate sheet explaining the nature and form of any and all such requests. (See Instructions.)

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

12 Did you, in fact, participate in or cooperate with an international boycott?

If "Yes," attach a copy (in English) of any and all boycott clauses agreed to, and attach a general statement of the agreement. If the agreement was in a form other than a written agreement, attach a separate sheet explaining the nature and form of any and all such agreements. (See Instructions.)

Note: If the answer to either question 11 or 12 is "Yes," you must complete the rest of Form 5713. If you answered "Yes" to question 12, you must complete Schedules A or B and C (Form 5713)

Part II Requests for and Acts of Participation in or Cooperation with an International Boycott

13 a	Did you receive requests to enter into, or, in fact, enter into any agreement (See instruction F.3 and F.5):	Requests		Agreements	
	Type of participation or cooperation	Yes	No	Yes	No
	(1) As a condition of doing business directly or indirectly within a country or with the government, a company, or a national of a country to—				
	(i) Refrain from doing business with or in a country which is the object of an international boycott or with the government, companies, or nationals of that country?				
	(ii) Refrain from doing business with any United States person engaged in trade in a country which is the object of an international boycott or with the government, companies, or nationals of that country?				
	(iii) Refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion?				
	(iv) Refrain from employing individuals of a particular nationality, race, or religion?				
	(2) As a condition of the sale of a product to the government, a company, or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased or operated by a person who does not participate in or cooperate with an international boycott?				

b Requests and agreements.—If the answer to any part of 13a is "Yes," indicate below: the country, the taxpayer identifying number, principal business activity code, description of the principal business activity, the number and the number code indicating the type of participation or cooperation requested or agreed to. Also, if you are an IC-DISC, enter the product code in column (5). (See Instructions.) If necessary, attach additional sheets using the exact format and check this box ☐

Name of country (1)	Taxpayer identifying number of person receiving the request or having the agreement (2)	Principal business activity		IC-DISCs only— Enter product code (5)	Type of cooperation or participation			
		Code (3)	Description (4)		Number of requests		Number of agreements	
					Total (6)	Code (7)	Total (8)	Code (9)
a								
b								
c								
d								
e								
f								
g								
h								
i								
j								
k								
l								
m								
n								
o								
p								
q								

**SCHEDULE A
(Form 5713)**

(Rev. January 1986)

Department of the Treasury
Internal Revenue Service

**Computation of the International
Boycott Factor (Section 999(c)(1))**

*(To be completed only by persons not computing loss of tax benefits by the
specifically attributable taxes and income method on Schedule B (Form 5713).)*

▶ **Attach to Form 5713.**

▶ **See instructions on back.**

OMB No. 1545-0216
Expires 10-31-88

Name _____ Taxpayer identifying number _____

Name of country being boycotted (check one).

☐ Israel ☐ Other (identify) ▶

Name of country (1)	Purchases, sales, and payroll attributable to boycotting operations, by operation		
	Boycott purchases (2)	Boycott sales (3)	Boycott payroll (4)
a			
b			
c			
d			
e			
f			
g			
h			
i			
j			
k			
l			
m			
n			
o			
Totals			

1 Numerator of boycott factor (add totals of columns (2), (3), and (4))

2 Denominator of boycott factor:

a Total purchases from countries other than United States

b Total sales to or from countries other than United States

c Total payroll paid or accrued for services performed in countries other than United States.

d Total of lines 2a, b, and c

3 International boycott factor (divide line 1 by line 2d). Enter here and on Schedule C (Form 5713) (see instructions)

If you are involved in more than one boycott, use a separate Schedule A for each boycott and attach to Form 5713

General Instructions

(References are to the Internal Revenue Code.)

A. Purpose.—Complete Schedule A (Form 5713) if you cooperated with or participated in an international boycott and use the international boycott factor to figure the loss of tax benefits. If you do not use the international boycott factor for this purpose, you must specifically attribute taxes and income on Schedule B (Form 5713).

B. Who Must File.—Anyone who cooperates with or participates in an international boycott must file either this form or Schedule B (Form 5713) to figure the loss of tax benefits. One act of cooperation or participation creates the presumption that you cooperate with or participate in the boycott unless you rebut the presumption as explained in instruction C. The presumption applies to all your operations and those of each member of any controlled groups (defined in section 993(a)(3)) to which you belong, in each country that helps carry out the boycott.

C. Boycott Operations.—All your operations in a boycotting country are considered to be boycott operations, unless you rebut the presumption of cooperating with or participating in the boycott, as explained below. In addition, your operations that are not in a boycotting country are boycott operations if they are connected to your cooperation with or participation in the boycott.

You can rebut the presumption of cooperating with or participating in a boycott for a particular operation by demonstrating that that operation is separate from any cooperation with or participation in an international boycott. The presumption applies only to operations in countries that carry out the boycott, so you do not need to rebut the presumption for operations that are related to those countries, but that take place outside them.

D. International Boycott Factor.—Your international boycott factor reflects boycott purchases, boycott sales, and boycott payroll.

1. Controlled Groups.—All members of a controlled group

generally share one international boycott factor, which reflects all their purchases, sales, and payroll. If you, however, belong to two or more controlled groups, your international boycott factor will reflect the purchases, sales, and payroll of all the controlled groups to which you belong.

2. Partnerships and Trusts.—You are deemed to have a prorated share of the purchases, sales, and payroll of each partnership in which you are a partner and of each trust of which you are treated as the owner under section 671. Thus, your international boycott factor may also reflect purchases, sales, and payroll of partnerships and trusts.

Specific Instructions

Compute a separate boycott factor and fill out a separate schedule for each international boycott with which you cooperate or participate. Include your own operations and, if applicable, the operations of partnerships, trusts, and members of your controlled group.

To decide for what years you should report purchases, sales, and payroll for partnerships, trusts, and controlled groups, see the specific instructions for questions 7-13 of Form 5713.

Partnerships.—For a partnership, complete only lines a through o, the totals of columns (2), (3), and (4), and line 2. Give this information to all partners so they can compute their own international boycott factor.

Column (1).—For each boycott operation enter the name of the country to which your international boycott operation relates. For example, if you have an operation in Country Z, which is not a boycotting country, and the operation relates to Country X, which is a boycotting country, enter the name of Country X. The Secretary maintains a list, under section 999(a)(3), of countries that require cooperation with an international boycott. This list may not be all-inclusive.

Column (2).—For each boycott operation enter all purchases that are attributable to that operation and are made from boycotting countries.

Column (3).—For each boycott operation enter the sales that are attributable to that operation and are made to or from boycotting countries.

Column (4).—For each boycott operation enter the total payroll that is attributable to that operation and is paid or accrued for services performed in boycotting countries.

Line 1.—Add columns (2), (3), and (4). The numerator of your international boycott factor includes all of the following.

- (i) Purchases you made from boycotting countries.
- (ii) Sales you made to or from boycotting countries.
- (iii) Payroll you paid or accrued for services performed in boycotting countries.

Do not include amounts attributable to operations for which you rebutted the presumption of cooperating with or participating in the boycott.

Line 2.—The denominator of your international boycott factor reflects all your purchases, sales, and payroll in or related to all countries other than the United States. If applicable, the denominator also reflects these items for your controlled groups, partnerships, and trusts. Include here the amounts that are attributable to operations for which you rebutted the presumption of cooperating with or participating in the boycott.

Line 3.—Enter the international boycott factor from line 3 of this form on the appropriate line of Schedule C (Form 5713) as follows:

If you reduce your foreign tax credit (section 908(a)), enter the international boycott factor on line 2a(2) of Schedule C.

If you are denied a tax deferral on subpart F income (section 952(a)(3)), enter the international boycott factor on line 3a(4) of Schedule C.

If you are denied a tax deferral on IC-DISC income (section 995(b)(1)(F)), enter the international boycott factor on line 4a(2) of Schedule C.

If you are denied an exemption of foreign trade income of a FSC (section 927(e)(2)), enter the international boycott factor on line 5a(2) of Schedule C.

**SCHEDULE B
(Form 5713)**

(Rev. January 1986)

Department of the Treasury
Internal Revenue Service

**Specifically Attributable Taxes
and Income (Section 999(c)(2))**

(To be completed only by persons not computing loss of tax benefits
by the international boycott factor on Schedule A (Form 5713).)

▶ **Attach to Form 5713.** ▶ **See Instructions on back.**

OMB No. 1545-0216

Expires 10-31-88

Name	Taxpayer identifying number
------	-----------------------------

Name of country being boycotted ☐ Israel ☐ Other (identify) ▶

Specifically Attributable Taxes and Income by Operation (Use a separate line for each operation.)

Name of country	Principal business activity		Foreign tax credit	Subpart F income	IC-DISC income	FSC income
(1)	Code	Description	Foreign taxes attributable to boycott operations	Prorated share of international boycott income	Taxable income attributable to boycott operations	Taxable income attributable to boycott operations
	(2)	(3)	(4)	(5)	(6)	(7)
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15 Total						

If you are involved in more than one international boycott, use a separate Schedule B (Form 5713) to compute the specifically attributable taxes and income for each boycott

General Instructions

(References are to the Internal Revenue Code.)

A. Purpose.—Complete Schedule B (Form 5713) if you participated in or cooperated with an international boycott and if you figure the loss of tax benefits by specifically attributing taxes and income. If you do not specifically attribute taxes and income for this purpose, you must compute the international boycott factor on Schedule A (Form 5713).

B. Who Must File.—Anyone who participates in or cooperates with an international boycott must file either this form or Schedule A (Form 5713) to figure the loss of tax benefits. One act of participation or cooperation creates the presumption that you participate in or cooperate with the boycott unless you rebut the presumption as explained in instruction C. The presumption applies to all your operations, and those of each member of any controlled groups (defined in section 993(a)(3)) to which you belong, in each country that helps carry out the boycott.

Certain shareholders.—IC-DISC benefits, certain FSC benefits, the "deemed paid" tax credit under section 902, and the deferral of subpart F income are lost at the shareholder level. Shareholders in an IC-DISC, certain FSCs or a foreign corporation must report their prorated share of the tax benefits denied. The denial of these benefits are discussed in the specific instructions for columns (4) through (7).

C. Boycott Operations.—All your operations in a boycotting country are considered to be boycott operations, unless you rebut the presumption of participation in or cooperation with the boycott, as explained below. In addition, your operations that are not in a boycotting country are boycott operations if they are connected to your participation in or cooperation with the boycott.

You can rebut the presumption of participation in or cooperation with a boycott for a particular operation by demonstrating that operation is separate

from any participation in or cooperation with an international boycott. The presumption applies only to operations in countries that carry out the boycott, so you do not need to rebut the presumption for operations that are related to those countries, but that take place outside them.

Specific Instructions

File Schedule B (Form 5713) for the period covered by your income tax return. Report only your own taxes and income; do not include other members of any controlled groups to which you belong.

Column (1).—For each boycott operation enter the name of the country to which your international boycott operation relates. For example, if you have an operation in Country Z, which is not a boycotting country, and the operation relates to Country X, which is a boycotting country, enter the name of Country X. The Secretary maintains a list, under section 999(a)(3), of countries that require cooperation with an international boycott, but this list may not be all-inclusive.

Column (2).—For each boycott operation enter the principal business activity code. Page 4 of the Instructions for Form 5713 lists the codes.

Column (3).—For each boycott operation briefly describe the principal business activity.

IC-DISCs.—For each boycott operation enter the product code and description in parentheses. The Instructions for Schedule N of Form 1120-IC-DISC, list the codes.

Column (4).—For each boycott operation enter the foreign taxes that are paid, accrued, or deemed paid and are attributable to the boycott operation. These taxes are not eligible for the foreign tax credit. Omit foreign taxes otherwise disallowed under sections 901-907, 911, or 6038. For more information see Part N of the Treasury Department's International Boycott Guidelines.

Enter the column (4) total on line 2b, Schedule C (Form 5713).

Column (5).—For each boycott operation enter your prorated share of the controlled foreign corporation's income that is attributable to the boycott operation. (This includes your share of the section 923(a)(2) non-exempt income of a FSC.) This amount is not eligible for tax deferral. Omit the foreign corporation's income attributable to earnings and profits that are included in gross income under section 951 (except by reason of section 952(a)(3)). Also omit amounts excluded from subpart F income by section 952(b). In figuring the amount to enter in column (5), you are allowed a reasonable amount for deductions (including foreign taxes) allocable to that income.

Enter the column (5) total on line 3b, Schedule C (Form 5713).

Column (6).—An IC-DISC's taxable income attributable to boycott operations is not eligible for deferral. If you are a shareholder in an IC-DISC, follow these steps for each boycott operation and enter the result in column (6): Add the amount deemed distributed for the tax year under subparagraphs (A), (B), (C), (D), and (E) of section 995(b)(1). Subtract this total from the IC-DISC's taxable income attributable to the boycott operation for the tax year, before reduction for any distributions. If you are a corporation, prorate your share of the remainder and multiply by 16/17. If you are not a corporation, prorate your share of the remainder. Enter the result in column (6). Enter the column (6) total on line 4b, Schedule C (Form 5713).

Column (7).—A FSC's taxable income attributable to boycott participation or cooperation is not eligible for exemption from income tax. Enter in column (7) the amount of taxable income attributable to foreign trade income of a FSC that would have been exempt if there had not been boycott participation or cooperation for each boycott operation.

Enter the column (7) total on line 5b, Schedule C (Form 5713).

**SCHEDULE C
(Form 5713)**

(Rev. January 1986)
Department of the Treasury
Internal Revenue Service

Tax Effect of the International Boycott Provisions

▶ Attach to Form 5713.

▶ For Paperwork Reduction Act Notice, see page 1 of Instructions for Form 5713.

OMB No. 1545-0216
Expires 10-31-88

Name	Taxpayer identifying number
------	-----------------------------

1 Method used in computing loss of tax benefits under sections 908(a), 952(a)(3), 995(b)(1)(F)(ii) and 927(e)(2) (check one)

- a** International boycott factor from Schedule A (Form 5713). See items 2a, 3a, 4a, and 5a below ▶ ☐
- b** Identification of specifically attributable taxes and income from Schedule B (Form 5713). See items 2b, 3b, 4b, and 5b below ▶ ☐

2 Reduction of foreign tax credit (section 908(a))

- a** International boycott factor. Complete if you checked box 1(a) above and answered "Yes" to foreign tax credit question on line 7d, Form 5713—

(1) Foreign tax credit before adjustment (line 6, Part III, Schedule B, Form 1118 (Rev. Oct. 1985) (corporations); or line 5, Part IV, Form 1116 (1985) (individuals))

(2) International boycott factor (from Schedule A (Form 5713), line 3)

(3) Reduction of foreign tax credit (multiply line 2a(1) by line 2a(2)). Enter here and on line 7, Part III, Schedule B, Form 1118 (corporations); enter here and on line 6, Part IV, Form 1116 (individuals)

(4) Adjusted foreign tax credit (subtract line 2a(3) from line 2a(1))

- b** Specifically identifying income and taxes. Complete if you checked box 1b above and answered "Yes" to foreign tax credit question on line 7d, Form 5713. Enter the amount from line 15, column (4), Schedule B (Form 5713)

Enter the appropriate part of this amount on line 3, Part II, Schedule B, of all applicable Form(s) 1118 (corporations); or on line 4, Part III, of all applicable Form(s) 1116 (individuals).

3 Denial of deferral under subpart F (section 952(a)(3))

- a** International boycott factor. Complete if you checked box 1a above and answered "Yes" to controlled foreign corporation question on line 7b, Form 5713—

(1) Prorated share of total income of controlled foreign corporations (See instructions.)

(2) Prorated share of income attributable to earnings and profits of controlled foreign corporations included in income under sections 951(a)(1)(A)(ii), 951(a)(1)(A)(iii), 951(a)(1)(B), 952(a)(1), 952(a)(2), 952(a)(4), and 952(b)

(3) Subtract line 3a(2) from line 3a(1)

(4) International boycott factor (from Schedule A (Form 5713), line 3)

(5) Prorated share of subpart F international boycott income (multiply line 3a(3) by line 3a(4)). Enter here and on line 5, Worksheet A, contained in the Instructions for Form 5471

- b** Specifically identifying taxes and income. Complete if you checked box 1b above and answered "Yes" to controlled foreign corporation question on line 7b, Form 5713. Enter the amount from line 15, column (5), Schedule B (Form 5713). Also enter this amount on line 5, Worksheet A, contained in the Instructions for Form 5471

4 Denial of IC-DISC benefits (section 995(b)(1)(F)(ii))

- a** International boycott factor. Complete if you checked box 1a above and answered "Yes" to IC-DISC question on line 7c, Form 5713—

(1) Prorated share of section 995(b)(1)(F)(i) amount (see instructions)

(2) International boycott factor (from Schedule A (Form 5713), line 3)

(3) Prorated share of IC-DISC international boycott income (multiply line 4a(1) by line 4a(2)) (See instructions.)

- b** Specifically identifying taxes and income. Complete if you checked box 1b above and answered "Yes" to IC-DISC question on line 7c, Form 5713. Enter amount from line 15, column (6), Schedule B (Form 5713). Also enter this amount on the appropriate line of Schedule J, Form 1120-IC-DISC

5 Denial of exemption of foreign trade income (section 927(e)(2))

- a** International boycott factor. Complete if you checked box 1a above and answered "Yes" to FSC question on line 7i, Form 5713.
- (1) Add amount from columns (a) and (b), line 10, Schedule B (Form 1120-FSC)
- (2) International boycott factor (from Schedule A (Form 5713), line 3)
- (3) Exempt foreign trade income of a FSC attributable to international boycott operations (multiply line 5a(1) by line 5a(2). Enter here and on line 1, Schedule F (Form 1120-FSC)
- b** Specifically attributable taxes and income. Complete if you checked box 1b above and answered "Yes" to question on line 7i, Form 5713. Enter amount from line 15, column (7), Schedule B (Form 5713). Also enter this amount on line 1, Schedule F (Form 1120-FSC)

Instructions

(Section references are to the Internal Revenue Code.)

You do not need to complete Schedule C (Form 5713) for a partnership or an IC-DISC. You must complete it, however, if you are a partner or an IC-DISC shareholder.

Controlled Groups.—Unless a controlled group (described in section 993(a)(3)) files a consolidated return, each member may choose independently either to apply the international boycott factor under section 999(c)(1) or to identify specifically attributable taxes and income under section 999(c)(2). Each member must consistently use a single method to figure the loss of tax benefits.

For example, a member that chooses to use the international boycott factor must apply it to determine its loss of the section 902 indirect foreign tax credit on a dividend that another member of the controlled group paid to it, even if the

other member determines its own loss of tax benefits by identifying specifically attributable taxes and income.

Thus, a person who applies the international boycott factor to one operation must apply the factor to all that tax year's operations under section 908(a), 952(a)(3), 995(b)(1)(F)(ii) or 927(e)(2).

A person who identifies specifically attributable taxes and income under section 999(c)(2) must use that method for all that tax year's operations under section 908(a), 927(e)(2), 952(a)(3), or 995(b)(1)(F).

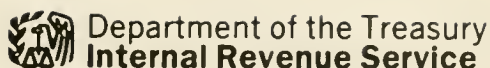
An IC-DISC whose tax year differs from the common taxable year of the controlled group of which it is a member does not need to amend its return to show on Schedule J (Form 1120-IC-DISC) the amount of IC-DISC benefits lost because of boycott participation. Since the IC-DISC benefits are lost at the shareholder level, the shareholder must include in

income the prorated share of income attributable to boycott operations shown on line 4a(3).

Line 3a(1).—Enter your share of the income of the controlled foreign corporation on line 3a(1).

Non-exempt foreign trade income of a foreign sales corporation (FSC) that was computed without regard to the administrative pricing rules is subject to the subpart F rules. Enter your share of these types of income on line 3a(1).

Line 4a(1).—Prorated share of section 995(b)(1)(F)(i) amount.—A noncorporate shareholder enters its share of the earnings and profits of the IC-DISC reduced by its share of the distributions under sections 995(b)(1)(A), (B), (C), (D), and (E) on line 4a(1). A corporate shareholder takes its share of the earnings and profits of the IC-DISC and reduces it by the distributions under sections 995(b)(1)(A), (B), (C), (D), and (E). It multiplies this amount by 16/17 and enters the result on line 4a(1).



Instructions for Form 5713

(Revised January 1986)

International Boycott Report

(Section references are to the Internal Revenue Code.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Reporting Operations, Boycott Requests, and Boycott Compliance.—Generally, persons having operations in or related to boycotting countries are required to report those operations, the receipt of boycott requests, and boycott agreements on Form 5713.

Tax Benefits Which May Be Lost.—If there is an agreement to participate in or cooperate with an international boycott, taxpayers may lose a portion of the foreign tax credit (section 908(a)); deferral of taxation of earnings of controlled foreign corporations (section 952(a)(3)); deferral of taxation of IC-DISC income (section 995(b)(1)(F)(ii)); and exemption of foreign trade income of a FSC (section 927(e)(2)).

The loss of tax benefits must be reported on either Schedule A or B (Form 5713), on Schedule C (Form 5713) and on Form 1116 (individuals), Form 1118 (corporations), Form 5471, Form 1120-IC-DISC or Form 1120-FSC.

Foreign Sales Corporations (FSCs) and Interest-Charge Domestic International Sales Corporations (IC-DISCs).—Foreign Sales Corporations and Interest-Charge Domestic International Sales Corporations were added to the Code by the Tax Reform Act of 1984. These entities are subject to the international boycott provisions of section 999.

Foreign sales corporations that compute their foreign trade gross income by using the administrative pricing rules of section 923(a)(3) will lose all or a portion of their exemption if they participate in or cooperate with an international boycott. FSCs that do not use these pricing rules may lose all or a portion of their exemption if they participate in or cooperate with an international boycott. Additionally, the amount of nonexempt foreign trade income computed without regard to the administrative pricing rules is subject to the subpart F rules of sections 951-964. Accordingly, for FSCs that have this type of income and that are controlled foreign corporations, U.S. shareholders of the FSC will be treated the same as any other U.S. shareholder in a controlled foreign corporation. The benefits of deferral will be lost at the shareholder level.

IC-DISCs are, generally, treated in the same manner that Domestic International Sales Corporations were treated. Thus, if an IC-DISC participates in or cooperates with an international boycott, IC-DISC benefits will be lost at the shareholder level.

General Instructions

A. Who Must File.—Except as provided in Instruction F, you must file Form 5713 if you

- 1 have operations, or
- 2 are a member of a controlled group (as defined in section 993(a)(3)), a member of which has operations, or
- 3 are a United States shareholder (within the meaning of section 951(b)) of a foreign corporation that has operations, but only if you own (within the meaning of section 958(a)) stock of that foreign corporation, or

- 4 are a partner in a partnership that has operations; or
- 5 are treated under section 671 as the owner of a trust that has operations

in or related to a boycotting country or with the government, a company, or a national of a boycotting country. However, if you are not a United States person (as defined below), you need not file Form 5713 unless you claim the benefits of the foreign tax credit under section 901, own stock of an IC-DISC or are a FSC that has exempt foreign trade income.

U.S. Person.—A U.S. person includes a citizen or resident of the United States; a domestic partnership, a domestic corporation; and any estate or trust (other than a foreign estate or foreign trust). (See section 7701(a)(30).)

B. When and Where to File.—File Form 5713 (including Schedules A, B, and C, if applicable) in duplicate when your tax return is due, including extensions. Send one copy to the Internal Revenue Service Center, Philadelphia, PA 19255, and attach the other copy to your income tax return.

C. Boycotting Country.—A boycotting country is any country which is on the list maintained by the Secretary of the Treasury under section 999(a)(3). The list currently (as of October 1, 1985) includes Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen Arab Republic, and Peoples Democratic Republic of Yemen.

Also, any other country in which you (or a member of the controlled group of which you are a member) have operations and which you know or have reason to know requires any person to participate in or cooperate with an international boycott other than a boycott referred to in section 999(b)(4)(A), (B), or (C) (see instruction F) is a boycotting country.

D. Definition of "Operations."—The term "operations" encompasses all forms of business or commercial activities and transactions (or parts of transactions), whether or not productive of income, including, but not limited to: selling, purchasing; leasing; licensing; banking, financing, and similar activities; extracting; processing; manufacturing; producing; constructing; transporting; performing activities ancillary to the foregoing (e.g., contract negotiating, advertising, site selecting, etc.); and performing services, whether or not ancillary to the foregoing.

You are considered to have operations "in a boycotting country" if you have an operation that is carried on in whole or in part in a boycotting country.

You are considered to have operations "with the government, a company, or a national of a boycotting country" if you have an operation that is carried on outside a boycotting country either for or with the government, a company, or a national of a boycotting country.

You are considered to have operations "related to a boycotting country" if you have an operation that is carried on outside a boycotting country for the government, a company, or a national of a non-boycotting country if you know or have reason to know that specific goods or services produced by the operation are intended for use in a boycotting country, or for use by or for the benefit of, the government, a company, or a national of a boycotting country, or for use in forwarding or transporting to a boycotting country.

E. Boycott Requests.—A boycott request is any request to enter into an agreement that would constitute participation in or cooperation with an international boycott.

F. Special Filing Situations and Waivers Regarding Form 5713.

1. Controlled Groups.—If you are a member of a controlled group of corporations, you do not have to file Form 5713 if you joined in the filing of a consolidated income tax return and Form 5713 was filed on behalf of all members of the controlled group who joined in the filing of that return. If the consolidated return is not filed on your behalf, you must separately file Form 5713.

Also, you, as a member of a controlled group, do not have to file Form 5713 if, for your tax year, all four of the following conditions are met: (a) you have no operations in or related to a boycotting country (or with the government, a company, or a national of a boycotting country), and owned no stock, directly or indirectly, of any corporation having such operations; (b) you received no boycott request and owned no stock, directly or indirectly, of any corporation receiving such requests; (c) you are not entitled to (or you forfeit) any benefits of deferral, IC-DISC, FSC, or the foreign tax credit; and, (d) you attach to your income tax return a certificate signed by a person authorized to sign the tax return of the common parent of your group stating that Form 5713 was filed on your behalf.

2. Partners.—Generally, if you are a partner in a partnership that has operations in a boycotting country, you are required to file Form 5713. However, if the partnership did not participate in or cooperate with an international boycott and filed Form 5713 with its Form 1065, then you need not file Form 5713 if you have no operations in or related to a boycotting country, or with the government, a company, or a national of a boycotting country other than the operations that are reported on the Form 5713 filed by the partnership.

3. U.S. Sanctioned Boycotts.—Section 999(b)(4)(A) permits you to meet the requirements imposed by a foreign country with respect to an international boycott if United States law or regulations, or an Executive Order, sanctions participation in or cooperation with that international boycott. You need not report operations that fall within this exception.

4. Prohibition on Importation and Exportation.—Although you may agree to comply with prohibitions on exportation or importation described in section 999(b)(4)(B) and section 999(b)(4)(C) without incurring tax sanctions, you must report the operations under such agreements on Form 5713.

5. Unsolicited Tender Invitations.—If you receive an unsolicited tender invitation which contains a request to participate in or cooperate with an international boycott, you do not have to report the request unless you respond to the invitation.

6. United States Subsidiary or Sister Corporation.—If you are required to file Form 5713 and you are a subsidiary or sister corporation of a foreign corporation that is not required to file Form 5713, you do not have to report the operations, boycott requests, and boycott participation or cooperation of that foreign corporation if you do not claim, or if you forfeit, the benefits of deferral, IC-DISC, FSC and the foreign tax credit attributable to (a) operations related to boycotting countries in connection with which there was participation in or cooperation with an international boycott, and (b) operations in boycotting countries which you cannot clearly demonstrate are clearly separate and identifiable from operations in connection with which there was participation in or cooperation with an international boycott.

If the foregoing conditions are satisfied, and the only reason you are required to file Form 5713 is that your foreign sister or foreign parent has reportable operations in or related to a boycotting country (or with the government, a company, or a national of a boycotting country), then you need not file Form 5713.

This waiver does not relieve you of your obligation to report the operations, boycott requests, and boycott participation or cooperation of yourself, of United States members of your controlled group, and of foreign corporations of which you are a U.S. shareholder if you are required to report on behalf of a foreign corporation of which you are a U.S. shareholder, you must report all operations, boycott requests, and boycott participation or cooperation of that foreign corporation whether or not they are effectively connected with the conduct of a trade of business in the United States.

7. Foreign Corporations That Are Required to Report Because of U.S. Branch Operations.—If you are a foreign corporation engaged in operations in the U.S. through a branch and are required to file Form 5713, you do not have to report the operations, boycott requests, and boycott participation or cooperation of your non-U.S. parent, subsidiaries, or sister corporations and your own operations, boycott requests, and boycott participation or cooperation that do not relate to your U.S. branch if you do not claim, or if you forfeit, the benefits of deferral, DISC, FSC, and the foreign tax credit attributable to (a) operations related to boycotting countries in connection with which there was participation in or cooperation with an international boycott, and (b) operations in boycotting countries which you cannot clearly demonstrate are clearly separate and identifiable from operations in connection with which there was participation in or cooperation with an international boycott.

If the foregoing conditions are satisfied, and neither your U.S. branch nor any U.S. member of your controlled group has operations in or related to a boycotting country (or with the government, a company, or a national of a boycotting country), then you need not file Form 5713.

This waiver does not relieve you of your obligation to report all operations, boycott requests, and boycott participation or cooperation of your U.S. branch and of all U.S. members of each controlled group of which you are a member.

Moreover, all the operations, boycott requests, and boycott participation or cooperation of your U.S. branch must be reported even if they relate to the branch's operations that are not effectively connected with a U.S. trade or business. Additionally, if you or any member of a controlled group of which you are a member engages in operations in the United States directly rather than through the U.S. branch, and those operations are also operations in or related to a boycotting country, or with the government, a company, or national of a boycotting country, then you must report those operations, as well as all boycott requests and boycott participation or cooperation relating to those operations.

G. International Boycott Factor and Specifically Attributable Taxes and Income.—If there is participation in or cooperation with an international boycott, you must compute the loss of tax benefits. You may either use the international boycott factor, or you may determine the taxes and income specifically attributable to boycott operations.

If you compute the loss of tax benefits by using the international boycott factor, complete Schedules A and C (Form 5713). If you determine taxes and income specifically attributable to boycott operations, complete Schedules B and C (Form 5713).

Schedules A, B, and C (Form 5713) need not be filed if there was no participation in or cooperation with an international boycott.

IC-DISCs and partnerships need not complete Schedule C. However, they must complete parts of both Schedules A and B, unless all

shareholders, or all partners, compute the loss of their tax benefits using the boycott factor exclusively, or the specifically identifiable taxes and income method exclusively. In such cases, the IC-DISC and the partnership need complete only parts of Schedule A or parts of Schedule B.

H. Penalties.—Willful Failure to Report.—The willful failure to file Form 5713 may result in fines of \$25,000, imprisonment for not more than one year, or both.

Specific Instructions

Common Taxable Year of Controlled Group.—The taxable year for a controlled group is the same as the common taxable year (from line 4b(3)).

1. Individuals.—Enter your adjusted gross income (e.g., for 1985, line 32, Form 1040).

2c. Partnerships and Corporations.—Enter your principal business activity code number and description. Page 4 of the instructions provides the code list of business activities for corporations and partnerships. Using this list, enter the code number for the specific industry group from which the largest percentage of "total receipts" was derived. On Forms 1120, 1120S, and 1120F, total receipts means gross receipts (Forms 1120 and 1120S, page 1, line 1a; and Form 1120F, page 3, line 1a) plus all other income (Forms 1120 and 1120S, page 1, lines 4 through 10; and Form 1120F, page 3, lines 4 through 10). For IC-DISCs, "total receipts" means all income (page 1, line 1, Form 1120-IC-DISC). See the instructions for Form 1120-IC-DISC for business activities of an IC-DISC. For partnerships, "total receipts" on Form 1065 means gross receipts (page 1, line 1a) plus all other income (page 1, lines 4 through 10). For FSCs, enter total of columns (a) and (b), line 6, Schedule B (Form 1120-FSC).

2d. IC-DISCs.—Enter the major product code number and description from Schedule N, Form 1120-IC-DISC, page 5. This is the code number for the major product or service (as measured by export gross receipts) sold or provided by the IC-DISC.

4b. Common Taxable Year Election.—In general, the common taxable year of the controlled group is the taxable year of the common parent. However, the members of the controlled group may elect the taxable year of any member of the group as the common taxable year. This election is made by entering the name, taxable year and employer identification number of the designated corporation on line 4b.

All members of a controlled group must consent, in writing, to the common taxable year election. A common parent may consent to the common taxable year election on behalf of all members of the controlled group that joined with the common parent in filing a consolidated return. Foreign corporations which are members of a controlled group need not sign the consent if they are not required to report. However, if the foreign corporation subsequently becomes liable to report, then it is bound by the common taxable year election previously made by the group. A copy of the consent must be attached to each member's Form 5713 filed for the first taxable year of such member to which the common taxable year election applies. In the event no common parent exists and no consensus is reached by the members of the controlled group, the common taxable year of the group will be the taxable year of the member of the controlled group whose taxable year ends in the latest month of the calendar year. The taxable year election is a binding election and can be changed only with the approval of the Secretary of the Treasury.

4c(1). Corporations.—Enter the amount of total assets (e.g., for 1985 forms, enter)

- (a) Form 1120 Schedule L, line 14, column (d);
- (b) Form 1120-IC-DISC Schedule L, line 3, column (b);
- (c) Form 1120F Schedule L, line 14, column (d);
- (d) Form 1120S Schedule L, line 14, column (d);
- (e) Form 1120L From Form 1120L;
- (f) Form 1120M, Annual Statement, page 11, line 22 (sum of columns 1 and 2);
- (g) Form 1120-FSC Schedule L, line 14, column (d).

4c(2). Corporations.—Enter the amount of taxable income before net operating loss and special deductions (e.g., for 1985 forms, enter):

- (a) Form 1120, Page 1, line 28;
- (b) Form 1120-IC-DISC, Page 1, line 5 (Taxable income before net operating loss deduction and dividends-received deduction);
- (c) Form 1120F, Page 3, line 29;
- (d) Form 1120S, Page 1, line 28 (Taxable income);
- (e) Form 1120L, From Form 1120L;
- (f) Form 1120M, Page 1, line 4 (Taxable income before unused loss deduction);
- (g) Form 1120-FSC, Schedule B, Part II, line 18.

6.—Enter the applicable amounts as follows:

- (a) Foreign tax credit before adjustment (e.g., line 6, Part III, Schedule B, Form 1118 (Rev. 10-85) (corporations)); or line 5, Part IV, Form 1116 (1985) (individuals);
- (b) Pro rata share of total income of controlled foreign corporation (line 20, Schedule C, Form 5471);
- (c) Pro rata share of section 995(b)(1)(F)(i) amount (pro rata share of line 8, Part I, Schedule J, Form 1120-IC-DISC);
- (d) Exempt foreign trade income of a FSC. Enter total of columns (a) and (b), line 10, Schedule B (Form 1120-FSC).

Questions 7 through 13.

Filers Who Are Not Members of a Controlled Group.—Your answers to questions 7-13 on Form 5713 must reflect your operations, boycott requests and boycott participation or cooperation for your tax year. In addition, if you are:

- (a) a United States shareholder of a foreign corporation; or
- (b) a partner in a partnership; or
- (c) treated under section 671 as the owner of a trust,

then your answers to questions 7-13 must also reflect the operations in or related to boycotting countries (or with the government, a company, or a national of a boycotting country), boycott requests, and boycott participation or cooperation of the foreign corporation, partnership, or trust.

When you report on behalf of a foreign corporation as a United States shareholder, report the foreign corporation's operations, boycott requests, and boycott participation or cooperation for the foreign corporation's tax year that ends with or within your tax year.

When you report on behalf of a partnership as a partner, report the partnership's operations, boycott requests, and boycott participation or cooperation for the partnership's tax year that ends with or within your tax year.

When you report on behalf of a trust as its owner under section 671, report the trust's operations, boycott requests, and boycott participation or cooperation for your tax year

Filers Who Are Members of a Controlled Group of Corporations.—If you are a member of a controlled group of corporations, the answers to questions 7-13 on the Form 5713 filed by you for your tax year must reflect

- (a) your operations, boycott requests, and boycott participation or cooperation (and those of any trust of which you are treated as the owner under section 671) for your tax year that ends with or within the common taxable year that ends with or within your tax year (see instruction 4b);
- (b) the operations, boycott requests, and boycott participation or cooperation of each other member of the controlled group (and those of any trust of which a member of the controlled group is treated as the owner under section 671) for each member's tax year that ends with or within the common taxable year that ends with or within your tax year;
- (c) the operations, boycott requests, and boycott participation or cooperation of each foreign corporation or partnership on whose behalf you are reporting as a United States shareholder or as a partner, for the tax year of the foreign corporation or the partnership that ends with or within your tax year that ends with or within the common taxable year that ends with or within your tax year; and
- (d) the operations, boycott requests, and boycott participation or cooperation of each foreign corporation or partnership on whose behalf a member (other than you) of the controlled group is reporting as a United States shareholder or as a partner, for the tax year of the foreign corporation or the partnership that ends with or within such member's tax year that ends with or within the common taxable year that ends with or within your tax year

The net effect of these reporting requirements is that the answers to questions 7-13 generally are identical for each member of the controlled group and need only be updated on a group basis once a year. The information is updated at the close of the common taxable year, and is reported by each member of the group for its tax year that ends with or after the common taxable year. If the tax years of all members, foreign corporations, and partnerships coincide with the common taxable year, then all information is reported on a current basis.

If all tax years do not coincide, then all or some of the information reported will reflect a time period that is out of phase with the reporter's tax year.

Example.—Assume that Corporations A, B, C and D are all members of a controlled group. Corporation A is the common parent and no common taxable year election is made. Corporations A, B, and C report on the basis of a calendar year. Corporation D reports on the basis of a July 1-June 30 taxable year. Corporation C owns 15 percent of Foreign Corporation X. Corporation X reports on the basis of an April 1-March 31 tax year. Corporations A, B, C, D, and X have operations in boycotting countries. The answers to questions 7-13 on the Forms 5713 filed by Corporations A, B and C for their 1985 tax years will reflect the operations of Corporations A, B and C for the 1985 tax year, the operations of Corporation D for the period July 1, 1984-June 30, 1985, and the operations of Corporation X for the period April 1, 1984-March 31, 1985. The answers to questions 7-13

on the Form 5713 filed by Corporation D for its tax year ending June 30, 1986, will be identical to those on the Forms 5713 filed by Corporations A, B, and C for their taxable years ending December 31, 1985. Thus, the answers to questions 7-13 on the Form 5713 filed by Corporation D for its tax year ending June 30, 1986, will not reflect any of Corporation D's operations for its July 1, 1985-June 30, 1986 tax year.

Part I.—Operations in or Related to a Boycotting Country

8. Boycott of Israel.—Question 8 concerns operations in or related to countries on the Secretary's list of countries associated in the boycott of Israel (or with the governments, companies, or nationals of those countries). Use a separate line for each country or each person having operations in that country, but do not use separate lines for separate operations by the same person in the same country.

Column (2).—Enter the taxpayer identifying number of each person having operations in or related to any of the listed countries. Include the taxpayer identifying number of all members of your controlled group which have operations in or related to the listed countries.

Additionally, if you or a member of your controlled group is the United States shareholder of a foreign corporation which has operations in or related to the listed countries (or with the governments, companies, or nationals of those countries), enter your employer identification number or the employer identification number of the member of your group who is the United States shareholder, and in parentheses enter the name and employer identification number, if available, of the foreign corporation having the operation in or related to the listed countries.

Column (3).—Enter the principal business activity code number (see page 4) of the person having operations.

Column (4).—Enter a brief description of the principal business activity.

Column (5).—If you are an IC-DISC, enter the product code (See instructions for Schedule N (Form 1120-IC-DISC).)

9. Non-Listed Countries Boycotting Israel.—If the answer to question 9 is "Yes," use the same procedure outlined in the instructions for question 8 for any nonlisted countries which you know or have reason to know require participation in or cooperation with the international boycott of Israel.

10. Boycotts of Countries Other Than Israel.—If the answer to question 10 is "Yes," use the same procedure outlined in the instructions for question 8 for any international boycott other than the boycott of Israel.

11. Boycott Requests.—If you receive a substantial number of similar requests, you may attach a copy of one of these requests and attach a statement stating the number and nature of all other requests received.

12. Boycott Agreements.—If a substantial number of boycott agreements were entered into or were effective for the period covered by the report, and the boycott clauses are similar, you may attach a sample boycott clause and attach a statement stating the number and general nature of all other boycott clauses and agreements entered into. An agreement to participate in or cooperate with an international boycott continues for the entire period for which it is in effect and must be reported every year that it is in effect. Thus, a boycott agreement that continues over a three year period must be reported as participation in or cooperation with an international boycott in each of those three years.

Part II.—Requests for and Acts of Participation in or Cooperation with an International Boycott

13a.—Check "Yes" for any requests received or agreements entered into or continuing in effect during the period covered by the report with respect to any international boycott not excluded in instruction F.3. If no requests were received and no agreements were entered into or were in effect, enter "No."

13b.—Use a separate line for each country, each person, and each type of participation or cooperation, but do not use separate lines for similar types of participation or cooperation by the same person in the same country.

Column (2).—Enter the taxpayer identifying number of the person receiving the request or having the agreement.

Column (3).—Enter the principal business activity code number (see page 4) of the person receiving the request or having the agreement.

Column (4).—Enter a brief description of the principal business activity of the person receiving the request or having the agreement (see page 4).

Column (5).—If you are an IC-DISC, enter the product code (See the instructions for Schedule N (Form 1120-IC-DISC).)

Columns (6) and (8).—Enter in column (6) the total number of requests of the same type that were received by the same person in the same country. Enter in column (8) the total number of agreements of the same type that were entered into by the same person in the same country.

Column (7).—Enter the code number listed below which indicates the type of participation or cooperation requested.

Column (9).—Enter the code number listed below which indicates the type of participation or cooperation agreed to.

Code Number	Type of Participation or Cooperation Requested or Agreed to
01	Refrain from doing business with or in a country which is the object of the boycott or with the government, companies, or nationals of that country.
02	Refrain from doing business with any United States person engaged in trade in a country which is the object of the boycott or with the government, companies, or nationals of that country.
03	Refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion.
04	Refrain from employing individuals of a particular nationality, race, or religion.
05	As a condition of the sale of a product to the government, a company or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased or operated by a person who does not participate in or cooperate with an international boycott.

Codes for Principal Business Activity

These industry titles and definitions are based, in general, on the Standard Industrial Classification System authorized by the Regulatory and Statistical Analysis Division, Office of Information and Regulatory Affairs, Office of Management and Budget, to classify enterprises by type of activity in which they are engaged

Using the list below, enter the code for the specific industry group from which the largest percentage of "total receipts" is derived. For an explanation of the procedure used to determine total receipts, see instructions for line 2c

AGRICULTURE, FORESTRY, AND FISHING	Code	RETAIL TRADE
Code 0400 Agricultural production 0600 Agricultural services, forestry, fishing, hunting, and trapping	Rubber and misc. plastics products: 3050 Rubber products, plastics footwear, hose and belting 3070 Misc. plastics products Leather and leather products: 3140 Footwear, except rubber 3198 Other leather and leather products Stone, clay, glass, and concrete products: 3225 Glass products 3240 Cement, hydraulic 3270 Concrete, gypsum, and plaster products 3298 Other nonmetallic mineral products Primary metal industries: 3370 Ferrous metal industries, misc. primary metal products 3380 Nonferrous metal industries Fabricated metal products, except machinery and transportation equipment: 3410 Metal cans and shipping containers 3428 Cutlery, hand tools, and hardware, screw machine products, bolts, and similar products 3430 Plumbing and heating, except electric and warm air 3440 Fabricated structural metal products 3460 Metal forgings and stampings 3470 Coating, engraving, and allied services 3480 Ordnance and accessories, except vehicles and guided missiles 3490 Misc. fabricated metal products Machinery, except electrical: 3520 Farm machinery 3530 Construction, mining, and materials handling machinery and equipment 3540 Metalworking machinery 3550 Special industry machinery, except metalworking machinery 3560 General industrial machinery 3570 Office, computing, and accounting machines 3598 Engines and turbines, service industry machinery, and other machinery, except electrical Electrical and electronic machinery, equipment and supplies: 3630 Household appliances 3665 Radio, television, and communication equipment 3670 Electronic components and accessories 3698 Other electric equipment Transportation equipment: 3710 Motor vehicles and equipment 3725 Aircraft, guided missiles and parts 3730 Ship and boat building and repairing 3798 Other transportation equipment Measuring and controlling instruments; photographic and medical goods, watches and clocks: 3815 Scientific instruments and measuring devices; watches and clocks 3845 Optical, medical, and ophthalmic goods 3860 Photographic equipment and supplies 3998 Other manufacturing products.	Code Building materials, hardware, garden supply, and mobile home dealers: 5220 Building materials dealers 5251 Hardware stores 5265 Garden supplies and mobile home dealers 5300 General merchandise stores 5400 Food stores Automotive dealers and service stations: 5515 Motor vehicle dealers 5541 Gasoline service stations 5598 Other automotive dealers 5600 Apparel and accessory stores 5700 Furniture and home furnishings stores 5800 Eating and drinking places Misc. retail stores: 5912 Drug stores and proprietary stores 5921 Liquor stores 5995 Other misc. retail stores
CONSTRUCTION	Code	FINANCE, INSURANCE, AND REAL ESTATE
General building contractors and operative builders: 1510 General building contractors 1531 Operative builders Heavy construction contractors: 1611 Highway and street construction 1620 Heavy construction, except highway Special trade contractors: 1711 Plumbing, heating, and air conditioning 1721 Painting, paperhanging, and decorating 1731 Electrical work 1740 Masonry, stonework, and plastering 1750 Carpentry and flooring 1761 Roofing and sheet metal work 1771 Concrete work 1781 Water well drilling 1790 Miscellaneous special trade contractors	Food and kindred products: 2010 Meat products 2020 Dairy products 2030 Preserved fruits and vegetables 2040 Grain mill products 2050 Bakery products 2060 Sugar and confectionery products 2081 Malt liquors and malt 2088 Alcoholic beverages, except malt liquors and malt 2089 Bottled soft drinks, and flavorings 2096 Other food and kindred products 2100 Tobacco manufacturers. Textile mill products: 2228 Weaving mills and textile finishing 2250 Knitting mills 2298 Other textile mill products Apparel and other textile products: 2315 Men's and boy's clothing 2345 Women's and children's clothing 2388 Hats, caps, millinery, fur goods, and other apparel and accessories 2390 Misc. fabricated textile products Lumber and wood products, except furniture: 2415 Logging camps and logging contractors, sawmills and planing mills 2430 Millwork, plywood, and related products 2498 Other wood products, including wood buildings and mobile homes 2500 Furniture and fixtures Paper and allied products: 2625 Pulp, paper, and board mills 2699 Other paper products Printing, publishing, and allied industries: 2710 Newspapers 2720 Periodicals 2735 Books, greeting cards, and misc. publishing 2799 Commercial and other printing, and printing trade services Chemicals and allied products: 2815 Industrial chemicals, plastics materials and synthetics 2830 Drugs 2840 Soap, cleaners, and toilet goods 2850 Paints and allied products 2898 Agricultural and other chemical products Petroleum refining and related industries (including those integrated with extraction): 2910 Petroleum refining (including those integrated with extraction) 2998 Other petroleum and coal products	Banking: 6030 Mutual savings banks 6060 Bank holding companies 6090 Banks, except mutual savings banks and bank holding companies Credit agencies other than banks: 6120 Savings and loan associations 6140 Personal credit institutions 6150 Business credit institutions 6199 Other credit agencies Security, commodity brokers, dealers, exchanges, and services: 6210 Security brokers, dealers, and flotation companies 6299 Commodity contracts brokers and dealers, security and commodity exchanges, and allied services Insurance: 6355 Life insurance 6356 Mutual insurance, except life or marine and certain fire or flood insurance companies 6359 Other insurance companies 6411 Insurance agents, brokers, and services Real Estate: 6511 Real estate operators (except developers) and lessors of buildings 6516 Lessors of mining, oil, and similar property 6518 Lessors of railroad property and other real property 6530 Condominium management and cooperative housing associations 6550 Subdividers and developers 6599 Other real estate Holding and other investment companies: 6742 Regulated investment companies 6743 Real estate investment trusts 6744 Small business investment companies 6749 Holding and other investment companies, except bank holding companies
MANUFACTURING	Code	SERVICES
Food and kindred products: 2010 Meat products 2020 Dairy products 2030 Preserved fruits and vegetables 2040 Grain mill products 2050 Bakery products 2060 Sugar and confectionery products 2081 Malt liquors and malt 2088 Alcoholic beverages, except malt liquors and malt 2089 Bottled soft drinks, and flavorings 2096 Other food and kindred products 2100 Tobacco manufacturers. Textile mill products: 2228 Weaving mills and textile finishing 2250 Knitting mills 2298 Other textile mill products Apparel and other textile products: 2315 Men's and boy's clothing 2345 Women's and children's clothing 2388 Hats, caps, millinery, fur goods, and other apparel and accessories 2390 Misc. fabricated textile products Lumber and wood products, except furniture: 2415 Logging camps and logging contractors, sawmills and planing mills 2430 Millwork, plywood, and related products 2498 Other wood products, including wood buildings and mobile homes 2500 Furniture and fixtures Paper and allied products: 2625 Pulp, paper, and board mills 2699 Other paper products Printing, publishing, and allied industries: 2710 Newspapers 2720 Periodicals 2735 Books, greeting cards, and misc. publishing 2799 Commercial and other printing, and printing trade services Chemicals and allied products: 2815 Industrial chemicals, plastics materials and synthetics 2830 Drugs 2840 Soap, cleaners, and toilet goods 2850 Paints and allied products 2898 Agricultural and other chemical products Petroleum refining and related industries (including those integrated with extraction): 2910 Petroleum refining (including those integrated with extraction) 2998 Other petroleum and coal products	TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS, AND SANITARY SERVICES Transportation: 4000 Railroad transportation 4100 Local and interurban passenger transit 4200 Trucking and warehousing Other transportation including transportation services: 4400 Water transportation 4500 Transportation by air 4722 Passenger transportation arrangement 4723 Freight transportation arrangement 4799 Other transportation services Communication: 4825 Telephone, telegraph, and other communication services 4830 Radio and television broadcasting Electric, gas, and sanitary services: 4910 Electric services 4920 Gas production and distribution 4930 Combination utility services 4990 Water supply and other sanitary services WHOLESALE TRADE Durable 5008 Machinery, equipment, and supplies 5010 Motor vehicles and automotive equipment 5030 Lumber and construction materials 5050 Metals and minerals, except petroleum and scrap 5060 Electric goods 5070 Hardware, plumbing and heating equipment 5098 Other durable goods Nondurable 5110 Paper and paper products 5129 Drugs, chemicals, and allied products 5130 Apparel, piece goods, and notions 5140 Groceries and related products 5150 Farm-product raw materials 5170 Petroleum and petroleum products 5180 Alcoholic beverages 5190 Misc. nondurable goods	7000 Hotels and other lodging places 7200 Personal services Business services: 7310 Advertising 7340 Services to buildings 7370 Computer and data processing services 7392 Management, consulting, and public relations services 7394 Equipment rental and leasing 7398 Other business services Auto repair and services; misc. repair services: 7500 Auto repair and services 7600 Misc. repair services Amusement and recreational services: 7812 Motion picture production, distribution, and services 7830 Motion picture theaters 7900 Amusement and recreation services, except motion pictures Other services: 8015 Offices of physicians, including osteopathic physicians 8021 Offices of dentists 8050 Nursing and personal care facilities 8071 Medical laboratories 8099 Other medical services 8111 Legal services 8200 Educational services 8911 Engineering and architectural services 8932 Certified public accountants 8933 Other accounting, auditing, and bookkeeping services 8999 Other services, not elsewhere classified

U.S. TREASURY LIBRARY



1 0020037